

## **Division of Public Utilities**

Utility services play a unique role in our society. Unlike most goods and services, utilities are considered essential to the public welfare. The Division of Public Utilities promotes the public interest in utility regulation and works to ensure that all utility customers have access to safe, reliable service at reasonable prices.

Significant changes are occurring within the utility industries. During FY 2002, the number of utilities regulated by the Public Service Commission (PSC) decreased, due primarily to fourteen telephone companies discontinuing local service in Utah.

**Utility Growth**

| Type of Utility           | 2001 | 2002 | Change |
|---------------------------|------|------|--------|
| Electric                  | 13   | 13   | 0      |
| Natural Gas               | 2    | 2    | 0      |
| Telecommunications – ILEC | 21   | 21   | 0      |
| Telecommunications – CLEC | 97   | 83   | -14    |
| Water and Sewer           | 37   | 34   | -3     |
| Railroads                 | 4    | 4    | 0      |
| Total                     | 174  | 157  | -17    |

The Division of Public Utilities is charged with monitoring utility compliance to PSC rules and orders, recommending rate and service levels, and handling customer complaints. During FY 2002, the number of informal complaints from utility customers processed by the Division totaled 2,945 a 4% increase over the previous year.

The Division is the advocate for the safe, efficient and reliable operation of all public utilities within Utah. It promotes the interests of all ratepayers in obtaining reasonable levels of service at the lowest possible cost. Additionally, the Division receives and investigates complaints against utility companies and makes recommendations for corrective action to the Utah Public Service Commission. In this era of deregulation for certain utilities, the Division assists the Commission in establishing the rules of competition. Consumers benefit from deregulation when market power is mitigated and competitive choices are available. The offices of the Division of Public Utilities are at: (801) 530-7622.

| Utility Complaints      | 2001  | 2002  |
|-------------------------|-------|-------|
| Electric                | 254   | 341   |
| Natural Gas             | 435   | 482   |
| Telecom – ILEC          | 1,170 | 1,480 |
| Telecom – CLEC          | 656   | 392   |
| Telecom - Long Distance | 116   | 217   |
| Water and Sewer         | 179   | 3     |
| Total                   | 2,810 | 2,915 |

### **Telecommunications**

The competitive landscape of the telecommunication industry in 2002 has continued its dynamic change from traditional residential voice and business services, provided by a single monopoly, to a much broader field with new modes of advanced services and multiple carriers. The past year has brought many challenges to Utah's telecommunication industry, including declines in market valuations, job layoffs and bankruptcies. The overall downturn in the national economy has impacted the telecommunication markets dramatically. In spite of this, Utah's telecommunication markets are still showing signs of moderate growth and resiliency and have continued to advance toward a competitive market. This is evidenced by the fact that Utah telecommunication companies have invested \$98 million in capital improvements and have accrued more than \$780 million in revenue this year. In addition, competitive providers are present in 69 percent of Utah's 29 counties.

The basic purpose of the 1996 Federal and 1995 state legislation was to establish a new regulatory model for telecommunications to reflect the transition to a competitive marketplace. Utah's telecom market is currently in the midst of a transition from a traditional monopoly to an open and competitive market. Competition can promote lower prices, innovation, and improved service. During the transition period, the Division of Public Utilities works on regulation that facilitates economic development and protects consumers. To further the transition to competition, the division reviewed and worked on several major issues during the past year in Utah – new reporting rules, collocation, service quality, interconnection agreements, prices of

In 2002 the Division of Public Utilities along with the Utah Public Service Commission completed a two-and-a-half year process of reviewing Qwest's petition to provide long distance service within its own region. This opportunity is provided to incumbent local exchange carriers under section 271 of the federal Telecommunication Act of 1996, whereby a regional Bell operating company may offer long distance service after showing it has sufficiently opened its local markets to competition. As part of the review, the division participated in several collaborative processes with other states, including a system-wide test of Qwest's network and operating systems, the creation of performance guidelines and measures and development of a post-entry performance plan to ensure that Qwest's network remains open to local competition once it is granted section 271 approval.

unbundled network elements, tariff filings, and universal service funding policies affecting Utah carriers. The division continues to monitor all telecommunications activity and makes recommendations to the Utah Public Service Commission on key issues.

### **Energy**

The Division of Public Utilities helps the Utah Public Service Commission regulate the traditional utilities in the energy sector. This includes PacifiCorp/Utah Power, Questar Gas Company, Utah's nine rural electric cooperatives and one electric service district. The division also participates in proceedings before the Federal Energy Regulatory Commission involving issues such as wholesale transportation of electricity and natural gas. The Pipeline Safety Group within the energy section has the mandate to investigate conditions within the state relative to the safe piping of natural gas.

### **Electricity**

During this past fiscal year, western wholesale electricity prices returned to normal levels from the very high levels in fiscal year 2001. The energy section worked on an electric general rate case and three other major cases where PacifiCorp had requested increases in electric rates to recover excess power costs incurred from market purchases when prices were very high in the West. One of these cases related to the 5 ½ month mechanical failure outage of PacifiCorp's Hunter I power plant in Emery County which started in late 2000, with PacifiCorp having to replace that power with purchases on the open market.

Hearings in 2002 before the Public Service Commission, which included a stipulated agreement between parties, resolved the Hunter failure and other excess power cost claims by PacifiCorp. PacifiCorp had initially asked for \$103.5 million in excess power cost rate relief for Hunter and \$102 million for power purchase contracts for a total of \$205.5 million.

In July 2002, the Utah Public Service Commission issued its Final Order recommending approval of Qwest's petition and Qwest filed its petition with the FCC to enter Utah's long distance market. The FCC is reviewing Qwest's application.

This was in addition to the \$40.6 million rate increase allowed PacifiCorp by the Commission in September of 2001 as a result of the resolution of the rate case. The Commission's order in the last three cases limited the requested short term power cost rate increase of \$205.5 million to approximately \$140 million and introduced a rate freeze at year 2002 levels for all of Utah's PacifiCorp customers until January 1, 2004 and it orders the removal of the excess power cost recovery customer surcharge on March 31, 2004.

The Division is still working with PacifiCorp and with the Public Service Commissions of California, Idaho, Oregon, Washington and Wyoming regarding PacifiCorp's request for a total corporate restructuring. This important multi-state process involves extensive investigation and coordination with all parties for a resolution. During the July 2001 through the June 2002 fiscal year the energy section participated in 50 docketed electric cases.

### **Pipeline Safety**

The Pipeline Safety Group derives its authority from federal statutes, which have been adopted by the State of Utah. The group has the mandate to investigate conditions within the State relative to piping of natural gas. Pipeline safety works with natural gas distribution companies within the state such as Questar Gas and municipal operators. In addition, several hundred small gas system operators, which purchase gas from a distribution company and further distribute it within their facilities fall under the group's jurisdiction. The group is responsible for determining the state of these small gas systems and working with the operators to assure that the systems are either inherently safe or that some protection measures are installed to assure their safety against leaks.

### **Natural Gas**

During the 2002 fiscal year the energy section participated in eight docketed natural gas cases. The rates of Questar Gas Company decreased 25% for the typical residential customer during the fiscal year due primarily to decreases in the cost of acquiring natural gas. This is in sharp contrast to the 45% increase reported in fiscal year 2001. The net effect is that rates on July 1, 2002 are 11% higher than they were on July 1, 2000. The major reason for this past year's decrease was a general decline in spot prices at the natural gas wellhead. On May 3, 2002 Questar Gas Company filed an application for a general rate increase of \$23,017,000 with the Utah Public Service Commission. The impact of the typical residential customer would be an increase of 5.65%.

Pipeline safety personnel conduct in-depth inspections of these operators on an annual basis. These inspections assure that operator procedures and operations are consistent with federal regulations for safe functioning of natural gas systems.

Since the PSC regulations for pipeline safety were changed in 1996 to include jurisdiction over schools, hospitals, and other high-risk facilities, pipeline safety personnel have initiated programs at most of the school districts in Utah to correct any safety-related issues with natural gas piping. Most of this work has now been completed, particularly in the larger school districts where the risk is greatest. Work is now progressing on establishment of remedial measures to those hospitals and nursing homes where such actions were found to be necessary to bring natural gas systems into compliance with federal and state regulations. Contact with all such facilities in need of remedial measures should be completed during 2002.

Recent establishment of the federal operator qualification rule for natural gas systems has required that Utah set up guiding principals designed to bring master meter operators into compliance with this new federal rule. Guidelines have been developed during the past year to encourage vendors currently working with operators to also provide services related to operator qualification. Six vendors have now developed their own procedures to aid operators in developing operator qualification plans.

Pipeline safety work with apartment complexes and other similar facilities continues to result in modifications to those gas systems which were found to be deficient in safety of gas piping. Wherever possible, pipeline safety personnel recommend that underground steel piping be relocated above ground, inasmuch as the method of deficiency remediation generally minimizes cost and complexity of future operations.

For the two-year period leading up to the 2002 Winter Olympics, pipeline safety was heavily involved in assuring that proper attention was given to safety of natural gas and propane systems being developed for the Games. Final audit of all the Olympic venues showed

The major reasons stated by the company for the increase are the costs of adding new customers, a general decline in the usage per customer, the loss of Section 29 tax credits and a requested increase in return on equity from 11% to 12.6%. Hearings are scheduled for October of 2002.

that temporary systems set up for the games were constructed in accordance with federal and state regulations.

Results of federal inspections of our work consistently place us in the highest tier of federal performance criteria, which translates into Utah receiving the maximum amount of funds available through the federal pipeline safety program.

